

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

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Budget Summary

Appraisal on a Cash and Consolidated Basis

Total Federal receipts from the public in the fiscal year 1950 are estimated in the 1950 *Budget Document* at 47.2 billion dollars and total Federal payments to the public at 45.7 billion, with a cash surplus of 1.5 billion dollars. These estimates, on a cash and consolidated basis, include cash receipts and expenditures in the trust accounts as well as in the budget accounts and exclude major intragovernmental and noncash transactions.

RECEIPTS FROM THE PUBLIC

The official receipts estimate for 1950 assumes a continued high level of business activity and includes 2.3 billion dollars of new tax revenues from proposed social security legislation. The receipts estimate, however, excludes the recommended general tax legislation to increase revenues by 4 billion dollars.

If such general and social security tax legislation is enacted and if the general level of business stays high, total Federal receipts from the public in fiscal year 1950 would exceed the record wartime level. On the other hand, a moderate business recession would lower tax receipts sufficiently to put the Federal Government on a deficit basis, given the projected expenditures.

PAYMENTS TO THE PUBLIC

The 1950 *Budget Document* estimates that Federal payments to the public will rise from 36.5 billion dollars in fiscal year 1948 to 45.7 billion dollars in fiscal year 1950. This represents an increase of 9.2 billion dollars or about 25 per cent over the two fiscal years.

The increase in total payments from fiscal 1948 to fiscal 1949 is estimated at 3.6 billion, and the rise from fiscal 1949 to fiscal 1950 is projected at 5.6 billion.

Payments to the public anticipated for fiscal year 1950 include 42.2 billion dollars under present programs and the proposed legislation for the Economic Cooperation Administration and 3.5 billion dollars under other proposed enabling legislation, including additional payments to the public of 1.7 billion under proposed social security legislation.

The estimates of Federal payments to the public exclude expenditures for providing military supplies to countries of Western Europe in connection with the proposed North Atlantic Pact. The projection includes a dividend to servicemen from the national service life insurance fund estimated at about 2 billion dollars.

COMMITMENTS FOR THE FUTURE

The Budget Message emphasizes that defense expenditures to maintain the present program will be higher in fiscal 1951 than in fiscal 1950. Commitments under recommended legislation which will result in increased payments to the public in future years beyond 1950 include the proposed programs of medical care insurance, expanded coverage and increased benefits under old age retirement, survivors, and disability insurance, slum clearance and urban redevelopment, and low-rent public housing.

Federal Budget for Fiscal Year 1950

Substantial Increase in Cash Expenditures Anticipated

In transmitting his recommendations for the Budget of the United States for the fiscal year ending June 30, 1950, the President noted that "under the laws of our country, the Budget, when approved by the Congress, beomes the plan of action for the Federal Government" and "thus embodies decisions of tremendous importance, particularly in these times, to the American people and to the entire world." The President presented the Budget as "a carefully prepared plan for carrying out the many activities and services of the Government... in response to the needs and desires of the American people" and expressed his judgment that "the amounts shown in the Budget represent... the minimum requirements for the next fiscal year." He stated that "the Budget of the United States Government is large because its responsibilities are large," and recommended new tax legislation to raise revenues by 4 billion dollars, emphasizing "the compelling need for financial prudence by the Government at this time."

Federal receipts and expenditures and the effect of financial operations on the public debt for the fiscal years 1948, 1949, and 1950, are shown in Table 1. The Budget, as presented, is put in terms of receipts in and expenditures from "budget accounts." Some of these receipts and expenditures, however, are intragovernmental in character and involve noncash transactions. On the other hand, receipts and expenditures in "trust accounts" are excluded from the Budget totals although they include substantial cash receipts and payments. For these reasons, data have been developed which show Federal receipts from and payments to the public on a "cash and consolidated" basis. These data present a picture of the flow of money between the Federal Government as a

whole and the public, and are therefore more useful than the data on a "Budget basis" in judging the effect of Federal finances on other sectors of the economy. The discussion in this article, centered about Tables 2 and 3, is on a "cash and consolidated" basis, including cash receipts and expenditures in the "trust accounts" as well as in the "budget accounts" and excluding major intra-governmental and noncash transactions.

The 1950 *Budget Document* contains several notable improvements in reporting practice and useful innovations in form. Payments of refunds of Government receipts are now reported as deductions from total receipts, whereas previously they were reported as expenditures. Also, payments by wholly-owned Government corporations and enterprises for retirement of capital stock and surplus, which were formerly reported as miscellaneous receipts, are excluded from both receipts and expenditures. These new procedures reduce both Budget receipts and expenditures for each year by equal amounts and have no effect upon the amount of the surplus or deficit, either on a cash or Budget basis, but do result in a more accurate statement of true receipts and operating costs of the Government.

A valuable new historical table in the 1950 *Budget Document* shows receipts from and payments to the public on a "cash and consolidated" basis for the past twenty fiscal years, with estimates for 1949 and 1950. A special study prepared by the Bureau of the Budget to accompany the 1950 *Budget Document* gives supporting tables which show how the data on Federal cash receipts from and payments to the public are derived from the data on Budget receipts and expenditures and trust account receipts and expenditures.

CASH RECEIPTS FROM THE PUBLIC

The *Budget Document* estimates that Federal cash receipts from the public will rise to 47.2 billion dollars in fiscal 1950 from almost 43 billion in fiscal 1949. Total receipts from the public were 45.4 billion dollars in fiscal 1948. Major sources of receipts from the public as estimated for fiscal year 1950 include: direct taxes on individuals, 19.8 billion dollars; direct taxes on corporations, 12.3 billion dollars; excise taxes and customs, 8.3 billion dollars; employment taxes under present programs and proposed legislation, 5.3 billion dollars; and deposits by States with the unemployment trust fund under present programs and proposed legislation, 1.2 billion dollars.

Decline in 1949—Total receipts from the public are expected to decline from fiscal 1948 to fiscal 1949. This is due primarily to a reduction in individual income

tax collections and stepped-up refunds in the fiscal year 1949, as a result of the Revenue Act of 1948. Receipts from the individual income tax are expected to decline from 21 billion dollars in fiscal 1948 to 18.5 billion dollars in fiscal 1949. The anticipated increase in refunds of receipts from 2.3 billion dollars in 1948 to 2.7 billion dollars in 1949 is due chiefly to the unusual "over withholding" of individual income taxes for January through April 1948, as a result of the lower rates set retroactively by the Revenue Act of 1948.

Continued High Level of Business Activity Assumed—The estimates of receipts as given in the Budget for 1950 "assume the continuance of full employment and approximately the current levels of economic activity." The increase in levels of personal income and corporation profits of the last several years has, of course, brought

substantially higher receipts from individual and corporation income taxes. Looking ahead, any decline in the level of business activity would result in a decline in Federal receipts from the public below the estimates for the fiscal years 1949 and 1950, which are based upon the assumption of a continued high level of business activity.

New Taxes Recommended—The President recommended that Congress enact new tax legislation to raise revenues by 4 billion dollars. Increased receipts from this proposed legislation are not included in estimates of Federal receipts as presented in tables in the *Budget Document* or in this article. If additional taxes amounting to 4 billion dollars when fully effective over an entire year were enacted fairly promptly, the increase in tax receipts in the fiscal year 1950 would be considerably less, perhaps 2 billion dollars, because of the normal lag in the collection of taxes.

Additional Revenue from Proposed Social Security Legislation—Employment taxes under present programs are estimated to increase from 2.4 billion dollars

in fiscal 1948 to 2.6 billion dollars in fiscal year 1949 and 3.3 billion dollars in fiscal 1950. These estimated increases result, in part, from assumed continuation of full employment and, in part, from the increase in the tax rates for railroad retirement in January 1949 and for old age and survivors insurance in January 1950 under existing legislation. In addition, the President proposed legislation which would increase employment taxes by almost 2 billion dollars and deposits by States with the unemployment trust fund by 230 million dollars in fiscal 1950, as compared with fiscal 1949. Increased receipts of the Federal old-age and survivors insurance trust fund of 1.7 billion dollars under proposed legislation would come from moving forward the rate increase now scheduled for January 1950 to July 1949, from raising the ceiling on taxable earnings, and from extending the payroll tax to workers and employers not now covered. Receipts from payroll contributions for the recommended medical care insurance trust fund are estimated at 260 million dollars for fiscal year 1950 under proposed legislation.

CASH PAYMENTS TO THE PUBLIC

The *Budget Document* estimates that Federal payments to the public will rise from 36.5 billion dollars in fiscal year 1948 to 40.1 billion dollars in fiscal year 1949 and 45.7 billion dollars in fiscal year 1950. The increase over the two fiscal years amounts to 9.2 billion dollars or about 25 per cent.

Cash payments to the public by the Government are shown in Table 3 in terms of major functions, setting forth the broad purposes for which the Government spends money regardless of which department or agency carries them out. Under each major function are shown the chief programs under present and proposed enabling legislation.

National Defense—About one-third of total payments to the public by the Federal Government during fiscal year 1950 will be for national defense. Expenditures on this function in fiscal 1950 are estimated at 14.3 billion dollars, an increase of 2.4 billion dollars over the anticipated expenditures of 11.9 billion in fiscal 1949.

The functional classification of payments to the public used by the Bureau of the Budget places cash redemption of armed forces leave bonds, of course, under the category of national defense. These cash redemptions, including a small amount of cash payments other than redemptions, will decline from 1,490 million dollars in fiscal year 1948 to an estimated 60 million in 1950. Payments to the public for national defense, exclusive of cash redemptions of armed forces leave bonds, show an increase of 1.1 billion dollars from fiscal year 1948 to the present one and a projected increase of 2.5 billion from the current fiscal year to the next year.

Expenditures for national defense under proposed enabling legislation include tentative estimates of 600 million dollars for the first year cost of universal training and 385 million dollars for other proposed legislation. The

pay and maintenance of military personnel in the fiscal year 1950 will require estimated expenditures of 5,152 million dollars, of which 3,601 million will be pay and allowances of regular personnel, 192 million pay of retired personnel, and 1,359 million for subsistence, travel, and other. An average of 1,616,000 officers and men will be on active duty in fiscal 1950, as compared with 1,604,000 on December 1, 1948, and 1,394,000 on April 1, 1948.

Expenditures for civilian components include drill and training pay and maintenance of reservists, operating expenses, and procurement of new equipment. These expenditures in the fiscal year 1950 are projected at 760 million dollars, as compared with 590 million in 1949 and 350 million in 1948. The funds recommended for 1950 will permit an average of 949,000 officers and men as reserves in regular training status as compared with 655,000 men in December 1948. Direct costs of research and development are estimated at 505 million dollars in fiscal year 1950. Expenditures for aircraft and related procurement in the fiscal year 1950 are estimated at 1.7 billion dollars, over 500 million dollars above the present year. Payments for naval ship construction in 1950 are projected at 406 million dollars. This constitutes an increase of about 100 million dollars over the estimate for 1949. Expenditures for military public works construction by the armed forces in the fiscal year 1950, under existing legislation, are estimated at 302 million dollars.

Estimated expenditures in 1950 for procurement of other matériel (in addition to aircraft and ships), supplies, and services are 3.9 billion dollars, an increase of almost 600 million dollars over 1948. Expenditures on stockpiling of strategic and critical materials continue to increase. Such expenditures are estimated at 525 million dollars in fiscal year 1950, more than 400 million dollars greater than in 1948. By June 30, 1950, materials

valued at about 1.6 billion dollars are expected to be on hand.

International Affairs and Finance—About 15 per cent of total Federal cash expenditures in fiscal year 1950 will be for the function of international affairs and finance. Projected expenditures for 1950 amount to 6.9 billion dollars, 500 million below the estimated amount for fiscal 1949 of 7.4 billion dollars, but greater than actual expenditures in fiscal 1948 of 5.8 billion dollars.

Estimated expenditures under present and proposed legislation for the European Recovery Program are 4.5 billion dollars in 1950 and 4.6 billion dollars in the present fiscal year. Further authorizing legislation by Congress will be necessary to continue the European Recovery Program. A supplemental appropriation of 1,250 million dollars is requested for the remainder of the current fiscal year, and a 4.3 billion dollar appropriation for the fiscal year 1950.

The President recommended that, in extending the Economic Cooperation Act, the Congress eliminate the present legal requirement which in effect charges 3 billion dollars of the fiscal year 1949 expenditures for the European Recovery Program against the fiscal 1948 surplus. Section 114 (f) of the Economic Cooperation Act of 1948 requires that 3 billion dollars of 1948 revenues be transferred to a Foreign Economic Cooperation Trust

Fund to pay initial 1949 expenditures for the European Recovery Program. Expenditures and surplus for 1948 as shown in the Budget do not reflect this bookkeeping transfer, and European Recovery Program expenditures in fiscal year 1949 are shown in the Budget as budget expenditures.

Estimated expenditures under other proposed foreign aid legislation contemplated in the Budget includes 16 million dollars in the fiscal year 1949 for the Palestinian refugee program and 355 million dollars in fiscal year 1950 for assistance programs similar in character to current programs giving aid to Greece, Turkey, China, and Korea.

The cost of the Army's program of government and relief in occupied areas—primarily Germany and Japan—is estimated at 1,030 million dollars in 1950, as compared with 1,265 million in the present fiscal year and 965 million in 1948. Other reconstruction and military aid and foreign relief in fiscal 1950 will result in estimated expenditures of 567 million dollars. Redemption of non-interest-bearing notes by the International Monetary Fund and the International Bank for Reconstruction and Development will amount to an estimated 150 million dollars in fiscal year 1950, substantially less than the 913 million dollars in fiscal 1948. Expenditures on foreign relations and participation in international organizations

TABLE 1
FEDERAL RECEIPTS AND EXPENDITURES AND
EFFECT OF FINANCIAL OPERATIONS ON THE PUBLIC DEBT
FISCAL YEARS 1948, 1949, AND 1950
(In millions of dollars)

Item	1948 Actual	1949 Estimated	1950 Estimated
Receipts and expenditures:			
Budget accounts:			
Net receipts.....	42,211	39,580	40,985
Expenditures.....	33,791	40,180	41,858
Budget surplus (+) or deficit (—).....	+8,419	—600	—873
Trust accounts:			
Receipts.....	6,515	5,957	8,799
Expenditures and investments in U.S. securities.....	6,810	5,967	8,781
Excess of receipts (+) or expenditures and investments in U.S. securities (—).....	—295	—10	+18
Clearing account for outstanding checks, etc.:			
Excess of receipts (+) or expenditures (—).....	—507	+400	—
Effect of financial operations on the public debt:			
Total excess of receipts (+) or expenditures (—) in budget accounts, trust accounts, and clearing accounts.....	+7,618	—210	—856
Increase (+) or decrease (—) in Treasury cash balance.....	+1,624	—933	—500
Increase (+) or decrease (—) in public debt.....	—5,994	—723	+356
At end of period:			
Treasury cash balance.....	4,932	3,999	3,500
Public debt.....	252,292	251,569	251,925

for 1950 are estimated at 303 million dollars, of which 171 million dollars is for the regular operations of the State Department.

Veterans' Services and Benefits—Cash expenditures for veterans' services and benefits are estimated for fiscal year 1950 at 7.9 billion dollars. The increase over expenditures in the current year and the last year reflects principally the payment from trust accounts scheduled for next year of a dividend to all servicemen who hold or have held national service life insurance, offset by sharp declines in Budget expenditures on readjustment benefits.

Estimated expenditures for education and training in fiscal 1950 are just under 2 billion dollars, about 500 million dollars less than in the preceding year. The program of unemployment and self-employment allowances will be virtually completed, and expenditures in fiscal 1950 are projected at 78 million dollars as compared with 677 million dollars in 1948.

The Budget Message states that by the end of the fiscal year 1950 total outlays under the Servicemen's Readjustment Act since 1945 will have exceeded 13 billion dollars. Education and training benefits will have been used by 6,000,000 veterans. More than 9,000,000 will have received unemployment and self-employment allowances, and during the same period of time aggregate outlays for veterans' unemployment and self-employment benefits will have exceeded 3.5 billion dollars. Nearly 2,000,000 veterans will have obtained loan guarantees for homes and businesses.

The 1950 expenditure estimate is set at 2.1 billion dollars and is based on the assumption that some 3,000,000 individuals and families will receive payments in that year. Almost one-fourth of these payments are expected to be made for non-service-connected cases.

In reviewing his Budget estimates for veterans' services and benefits, the President stated; "The necessity for new or extended benefits for veterans without service disabilities should be judged, not solely from the standpoint of service in our armed forces, but in the light of existing social welfare programs available to all, veterans and nonveterans alike."

Social Welfare, Health, and Security—Payments to the public by the Federal Government for purposes of social welfare, health, and security are estimated for the fiscal year 1950 at almost 4.5 billion dollars. Projected expenditures for 1949 are 2.6 billion dollars, and actual expenditures in 1948 were 2.1 billion. The increase in estimated expenditures in fiscal 1950 over actual expenditures in fiscal 1948 approaches 2.4 billion dollars. This exceeds the increase in payments to the public in any other functional classification, including national defense, over the two-year period.

Of total estimated expenditures for social welfare, health, and security in fiscal year 1950, about 2.8 billion dollars are for benefit payments and annuities and refunds from the major trust accounts in the field of social welfare. Benefit payments under existing laws are estimated at 1.3 billion dollars. In addition, the increased coverage and benefits under Federal old-age and survivors insurance in proposed legislation which the President rec-

ommends would increase 1950 benefit payments by 1.5 billion dollars.

Cash expenditures for social welfare other than benefit payments from the major trust accounts in this field are projected at 1.7 billion dollars for the next fiscal year. Expenditures for public assistance to the aged, the blind, and dependent children under present laws are estimated at 1,064 million dollars in 1950. The public assistance programs of the Federal Government are all carried on in cooperation with the States, and Federal expenditures are almost entirely in the form of grants to State governments. An additional 65 million dollars is included as a tentative estimate of first-year expenditure under proposed legislation to improve the present public assistance system and to help cover State relief payments to persons not now eligible for assistance from Federal grants.

Housing and Community Facilities—Payments to the public in connection with this function will total an estimated 353 million dollars in the fiscal year 1950, somewhat less than anticipated 1949 expenditures.

Net purchases of Federally insured and guaranteed mortgages by the Federal National Mortgage Association, a subsidiary of the Reconstruction Finance Corporation, will result in estimated net expenditures of 149 million dollars under present authority. Proposed legislation to revise the present limitations on mortgage purchases would result in an additional 50 million dollars of expenditures to assist in the financing of rental and cooperative housing.

Education and General Research—Expenditures in fiscal 1950 for education and general research are estimated at 414 million dollars, an increase of 329 million over 1949. The President urges that Congress enact legislation to provide grants to the States in support of a basic minimum program of elementary and secondary education. The Budget includes an estimated 290 million dollars as expenditures in 1950 under such a program.

Estimated expenditures for other programs in education and general research are placed at 124 million dollars for 1950. This figure includes expenditures of 36 million dollars for the decennial census of population.

Agriculture and Agricultural Resources—Federal programs for agriculture will result in estimated expenditures of 1,656 million dollars in the fiscal year 1950. Net outlays of the Commodity Credit Corporation for price support are estimated to be 864 million dollars in 1949 and 535 million dollars in 1950 as compared with net receipts of 200 million dollars in 1948. Net outlays on price support thus increased almost 1.1 billion dollars from 1948 to 1949 on account of loan outlays or the acquisition of commodities in the current fiscal year in support of market prices of wheat, corn, cotton, potatoes, eggs, and flaxseed.

Expenditures in the fiscal year 1950 under proposed legislation are estimated at 85 million dollars. Included in this amount is 56 million dollars to cover the probable loss to the Commodity Credit Corporation in bridging the gap between the price of wheat for the farmer under the price support program and the price at which wheat is made available to foreign purchasers under the pro-

posed International Wheat Agreement. Proposed legislation to permit the Commodity Credit Corporation to acquire grain storage facilities will result in expenditures of 25 million dollars.

Net expenditures by the Rural Electrification Administration are estimated at 330 million dollars in the next fiscal year. Expenditures on conservation and use of soil resources are projected at 274 million dollars.

Natural Resources not Primarily Agricultural— This function includes programs relating to atomic energy, land and water resources, forest and mineral resources, and fish and wildlife resources. Expenditures in the fiscal year 1950 of 1.9 billion dollars are projected.

The Atomic Energy Commission is allotted 725 million dollars for its fiscal 1950 expenditures. In connection with this estimate, the Budget Message states: "Special emphasis is given to the development of nuclear reactors as an eventual means for converting atomic energy

into electricity and into power for propulsion of ships and airplanes. The 1950 Budget provides increased funds for the production of fissionable materials and the development of the science and technology of atomic energy. The present high costs of rapidly accomplishing these purposes must be balanced against the ultimate and far greater costs of failure to move ahead vigorously in this field."

Projected expenditures on river basin development will amount to one billion dollars in 1950, of which more than 90 per cent is for work started in prior years.

Transportation and Communication—Expenditures for this purpose are anticipated at 1,759 million dollars in the present fiscal year, almost 500 million greater than in 1948, and are projected at 1,587 million dollars in 1950, given passage of proposed legislation which would increase postal rates and lower the postal deficit.

On the basis of current postal rates it is estimated that

TABLE 2
FEDERAL CASH RECEIPTS FROM THE PUBLIC
FISCAL YEARS 1948, 1949, AND 1950

(In millions of dollars)

Source	Amount			Increase or Decrease (—)		
	1948 Actual	1949 Estimated	1950 Estimated	1948 to 1949	1949 to 1950	1948 to 1950
Direct taxes on individuals:						
Income tax:						
Withheld.....	11,436	10,414	10,680	—1,022	266	—756
Not withheld—current and back.....	9,560	8,116	8,455	—1,444	339	—1,105
Total, individual income tax.....	20,996	18,530	19,135	—2,466	605	—1,861
Estate tax.....	822	739	605	—83	—134	—217
Gift tax.....	77	58	48	—19	—10	—29
Total, direct taxes on individuals.....	21,896	19,327	19,788	—2,569	461	—2,108
Direct taxes on corporations:						
Income tax—current and back.....	9,852	11,515	12,112	1,663	597	2,260
Excess-profits taxes—current and back.....	323	194	140	—129	—54	—183
Total, direct taxes on corporations.....	10,174	11,709	12,252	1,535	543	2,078
Excise taxes and customs:						
Excise taxes.....	7,402	7,715	7,900	313	185	498
Customs.....	422	407	407	—15	—	—15
Total, excise taxes and customs.....	7,824	8,122	8,307	298	185	483
Employment taxes:						
Present program.....	2,396	2,599	3,323	203	724	927
Proposed legislation.....	—	—	1,960	—	1,960	1,960
Total, employment taxes.....	2,396	2,599	5,283	203	2,684	2,887
Deposits by States, unemployment trust fund:						
Present program.....	1,007	982	998	—25	16	—9
Proposed legislation.....	—	—	230	—	230	230
Total, deposits by States, unemployment trust fund.....	1,007	982	1,228	—25	246	221
Receipts from surplus property.....	1,830	693	365	—1,137	—328	—1,465
Veterans' life insurance premiums.....	434	447	467	13	20	33
Other budget and trust-account receipts ¹	2,130	1,794	1,634	—336	—160	—496
Refunds of receipts.....	—2,282	—2,714	—2,100	—432	614	182
Total receipts from the public ¹	45,409	42,959	47,224	—2,450	4,265	1,815

¹Includes receipts from seigniorage on silver.

TABLE 3

FEDERAL CASH PAYMENTS TO THE PUBLIC FISCAL YEARS 1948, 1949, AND 1950

(In millions of dollars)

Function and Program	Amount			Increase or Decrease (—)		
	1948 Actual	1949 Estimated	1950 Estimated	1948 to 1949	1949 to 1950	1948 to 1950
National defense:						
Pay and maintenance of military personnel.....	4,895	5,009	5,152	114	143	257
Civilian components.....	350	590	760	240	170	410
Research and development.....	534	557	593	23	36	59
Naval shipbuilding.....	271	1,377	1,408	1,106	31	31
Military public works construction.....	305	296	302	-9	6	1
Procurement of other matériel, supplies, and services.....	3,325	3,479	3,919	154	440	594
Universal training—proposed legislation.....	—	—	600	—	600	600
Tentative estimate for other proposed legislation.....	99	350	385	251	35	385
Stockpiling of strategic and critical materials.....	1,490	163	525	-1,327	426	426
Cash redemption of armed forces leave bonds.....	—	—	60	—	-103	-1,430
Total, national defense.....	12,150	11,900	14,332	-250	2,432	2,182
International affairs and finance:						
European Recovery Program—existing and proposed legislation.....	154	4,900	4,500	4,446	-100	4,346
Other proposed aid legislation.....	965	16	355	16	339	355
Army government and relief in occupied areas.....	1,700	1,265	1,050	-435	-235	-670
Treasury loan to the United Kingdom.....	—	—	—	—	—	—
Reconstruction and Relief Administration by the International Monetary Fund and the International Bank for Reconstruction and Development.....	913	135	150	-778	15	-763
Other reconstruction and military aid and foreign relief.....	1,803	1,067	567	-736	-500	-1,236
Foreign relations and participation in international organizations.....	234	319	303	85	-16	69
Total, international affairs and finance.....	5,768	7,403	6,905	1,635	-498	1,137
Veterans' services and benefits:						
Education and training.....	2,497	2,481	1,993	-16	-488	-504
Unemployment and self-employment allowances.....	677	424	78	-253	-346	-599
Pensions.....	2,080	2,140	2,111	60	-29	31
Hospital and domiciliary construction.....	106	186	261	80	75	155
Current expenses for hospital and medical care.....	536	597	574	61	-23	38
Benefits, refunds, and other payments from veterans' life insurance funds.....	377	381	2,451	4	2,070	2,074
All other.....	536	493	457	-43	-36	-109
Total, veterans' services and benefits.....	6,809	6,703	7,865	-106	1,162	1,056
Social welfare, health, and security:						
Public assistance.....	733	977	1,129	244	152	396
Promotion of public health.....	146	198	284	52	86	138
Benefit payments—Federal old-age and survivors insurance trust fund:						
Present program.....	512	602	688	90	86	176
Proposed legislation.....	—	—	1,500	—	1,500	1,500
Benefit payments—railroad retirement account.....	222	280	312	58	32	90
Annuities and refunds—Federal employees' retirement funds.....	244	274	277	30	3	33
Other programs.....	248	260	273	12	13	25
Total, social welfare, health, and security.....	2,107	2,598	4,464	491	1,866	2,357
Housing and community facilities:						
Mortgage purchases, net—Reconstruction Finance Corporation.....	113	333	149	220	-184	36
Other existing programs.....	107	91	-22	-16	-113	-129
Low-rent public housing—proposed legislation.....	—	15	129	15	114	129
Other proposed legislation.....	—	—	97	—	97	97
Total, housing and community facilities.....	220	439	353	219	-86	133

Education and general research:

Federal aid to education—proposed legislation.....

Other programs.....

76

85

290
124

9

290
41290
48

Total, education and general research.....

76

85

414

9

329

338

Agriculture and agricultural resources:

Price support—Commodity Credit Corporation.....

Rural Electrification Administration.....

Conservation and use of soil.....

Other existing programs.....

Proposed legislation.....

-200

230

283

227

284

864

227

461

85

535

274

85

1,004

44

177

-329

47

-29

85

735

91

38

148

85

Total, agriculture and agricultural resources.....

559

1,835

1,656

1,276

-179

1,007

Natural resources not primarily agricultural:

Atomic energy.....

River basin development.....

Other programs.....

475

482

142

634

801

192

725

936

211

159

319

50

91

135

19

250

454

69

Total, natural resources not primarily agricultural.....

1,099

1,627

1,572

528

245

773

Transportation and communication:

Promotion of aviation.....

Merchant marine.....

Navigation aids and facilities.....

Highways.....

Postal service deficit:

Present programs.....

Proposed legislation.....

Other programs.....

136

183

231

356

304

37

194

154

330

490

527

65

256

185

382

532

402

-250

80

58

-29

99

133

223

8

62

31

52

43

-125

-250

15

120

2

151

176

98

-250

23

Total, transportation and communication.....

1,267

1,759

1,557

492

-172

320

Finance, commerce, and industry:

Federal Deposit Insurance Corporation.....

Other programs.....

-132

89

-119

102

-134

107

-15

5

-2

18

16

Total, finance, commerce, and industry.....

-43

-17

-27

26

-10

16

Labor:

Benefit payments—unemployment trust fund:

Railroad unemployment insurance account.....

Withdrawals by States—State accounts.....

Proposed legislation.....

Placement services and administration of unemployment compensation.....

Other programs.....

62

794

145

28

62

880

143

32

69

950

150

146

35

7

60

150

3

156

150

7

7

156

150

7

Total, labor.....

1,030

1,127

1,350

97

223

320

General government:

Legislative functions.....

Judicial functions.....

Surplus property disposal.....

Bureau of Internal Revenue.....

Other programs.....

32

18

483

185

646

37

120

203

662

46

26

37

24

647

9

6

-103

-15

14

8

-371

45

7

-371

45

1

Total, general government.....

1,280

1,008

989

-221

-70

-300

Interest on the public debt:

Interest paid on savings bonds redeemed.....

Interest paid on other publicly-held issues of United States securities.....

268

3,603

350

3,519

575

3,460

82

-84

225

-59

307

-143

Total, interest on the public debt.....

3,571

3,589

4,035

-2

166

164

Other items.....

323

-261

-84

-584

177

-407

Total, payments to the public.....

36,524

40,133

45,710

3,609

5,577

9,186

the postal deficit will be 402 million dollars for the fiscal year 1950, as compared with 527 million in 1949 and 304 million in 1948. The President urged that Congress enact an adequate revision of the postal rate structure, sufficient to reduce the postal deficit to a "reasonable level." The added revenue from such proposed legislation is estimated at 250 million dollars for the fiscal year 1950.

Finance, Commerce, and Industry—The operations under this function show net cash receipts, largely because of net cash receipts by the Federal Deposit Insurance Corporation, included among trust account expenditures. Other programs under Budget expenditures will result in payments in 1950 which are estimated at 107 million dollars.

Labor—Payments to the public under this classification are estimated to rise from 1,030 million dollars in fiscal year 1948 to 1,350 million dollars in fiscal 1950. The major expenditures under this function are benefit payments from the unemployment trust fund. Such expenditures, including payments from the railroad unemployment insurance account as well as withdrawals by States, are estimated at 1,019 million dollars in fiscal year 1950 under present legislation. In addition, it is anticipated that such payments would be increased by 150 million dollars in fiscal year 1950 through proposed legislation which would extend coverage and improve benefits of the unemployment compensation system.

General Government—Cash expenditures on the programs grouped under this heading will decline from 1,289 million dollars in the last year to an estimated 989

million in the fiscal year 1950. This decline is largely a result of diminished expenditures on surplus property disposal programs. Major anticipated expenditures in fiscal year 1950 under "general government" include 46 million dollars for legislative functions, 26 million for judicial functions, and 233 million for the Bureau of Internal Revenue.

Interest on the Public Debt—Cash payments to the public of interest on the public debt are estimated at 4,035 million dollars in fiscal year 1950. Cash payments of interest on the public debt exclude the accrual of interest on savings bonds and the interest paid on issues of United States securities held by trust accounts and Government corporations. The Budget Message notes that most of the interest payments on marketable issues held by the Federal Reserve banks are coming back to the Government as miscellaneous receipts, as a result of the Federal Reserve policy of paying about 90 per cent of Reserve bank net earnings into the Treasury. It is estimated that Budget receipts from this source will rise from 140 million dollars in 1949 to 250 million in fiscal year 1950.

Other Items—Under this category in Table 3 on Federal payments to the public are included such items as reserve for contingencies, withdrawal and return of trust deposits, net expenditures from special deposit accounts, deductions from Federal employees' salaries for retirement funds, net change in clearing account for outstanding checks and telegraphic reports, and adjustment to Daily Treasury Statement.

COMMITMENTS FOR FUTURE EXPENDITURES

Essential to an adequate understanding of the financial position of the Federal Government is consideration of the possibilities and commitments for additional expenditures under present or proposed legislation. The programs of Government action which are presented in the Budget of the United States for fiscal year 1950 promise to result in increases in certain expenditures over the present estimates for fiscal year 1950 and will result in increased expenditures in future years.

The Budget Message calls attention to the importance of the effect of prior commitments upon later expenditures. For instance, "heavy prior commitments requiring larger expenditures for a number of continuing programs in the fiscal year 1950" as well as "the presence of inflationary forces in our economy" are given as reasons which make it "necessary to deny many requests for additional funds which would normally be desirable." The Budget Message states that "the full impact and direction of the Government's program cannot be measured in terms of expenditures alone in any one year" for "many of the commitments made under the appropriations and other authorizations enacted by the Congress for any year do not result in expenditures until a later year." The President stated that "a Government surplus at this time is vitally important" not only "to permit reduction of the public debt. . . and to reduce inflationary pressures"

but also "to provide a margin for contingencies" and "to provide an adequate base for the future financing of our present commitments."

Several Government programs present possibilities for expenditures in fiscal year 1950 beyond those projected or constitute commitments for additional expenditures in subsequent fiscal years.

National Defense—The Budget Message warns that "defense expenditures to maintain the present program are expected to be higher in 1951, as a result of expanding programs now under way and the large orders already placed for aircraft, ships, and other material and equipment, which will be delivered and paid for in the next few years." Again, it is stated: "Expenditures for national defense can be expected to rise substantially above the level estimated for 1950. We cannot expect any material decline in our international responsibilities. We must face squarely the fact that we foresee a deficit in the fiscal year 1950 under existing tax laws, even without any allowance for new military aid, and that even higher expenditures will probably be required in future years."

A tentative estimate of 600 million dollars is included in the projected expenditures for fiscal 1950 for the first year cost of universal military training, but it is pointed out that when in full operation this program may require expenditures of two billion dollars annually.

Moreover, under the Budget for fiscal year 1950, "it is contemplated that the Air Force will be organized with a minimum of about 48 combat groups and 10 squadrons together with 27 groups of the Air National Guard." Much Congressional opinion has been expressed on behalf of an even larger Air Force.

Military Aid under North Atlantic Pact—In his Budget Message the President stated that he expected later to request funds for providing military supplies to countries of Western Europe included in the proposed North Atlantic Pact and to certain other countries where the provision of such assistance is important to our national security. "It is not possible now to predict accurately what will be needed, and I have therefore included no allowance in the Budget," stated the President. "The fact that additional funds will be required to meet the demands of this program emphasizes even more strongly the need for increased revenues in the years ahead."

Social Security—The proposed plan for a national system of medical care insurance is included in the Budget for fiscal year 1950 on the expenditures side only to the extent of 15 million dollars for initial expenditures inaugurating the plan. Benefit payments for medical care insurance are not included in the estimated Budget totals for 1950, but enactment of the proposed legislation would constitute a commitment for substantial expenditures in subsequent years.

Allowance is made in the Budget for fiscal year 1950 both on the receipts side and the expenditures side for the proposed legislation concerning old-age retirement, survivors, and disability insurance. It should be noted, however, that the proposed legislation constitutes a commitment for benefit payments at some time in the future very much larger than such expenditures as estimated for 1950. Thus, the official text of the summary of the Administration's social security bills (HR 2892 and HR 2893), introduced in the present session, states: "Contributions levied in the bill are intended to be sufficient to cover the cost of benefits for the next five to ten years, depending upon economic conditions. Thereafter, either the rates will have to be raised or the Government will have to supplement the trust fund from general revenues or both. The bill provides for the creation of a National Social Security Legislative Advisory Committee to be appointed by the Congress not later than 1955 to review the system and report particularly upon appropriate financing." Commenting upon the Veterans' Pension Bill (HR 2681), the Bureau of the Budget estimates that the costs of the expanding social insurance program would reach a peak of 15 to 18 billion dollars annually by 1990, including anticipated outlays under present old-age and survivors insurance legislation.

Farm Price Support—Net outlays of the Commodity Credit Corporation in support of farm prices are estimated in the Budget at almost 900 million dollars in fiscal 1949 and about 500 million in fiscal 1950. Actually the expenditures for this purpose in the present fiscal year will exceed the Budget estimate, because of the drop in the commodity markets. Moreover, the Budget Mes-

sage points out that "if 1949 production should equal the magnitude of the 1948 crops, expenditures of the Commodity Credit Corporation would be considerably larger in the fiscal year 1950 than now estimated." Again, a business recession would be another development which would cause expenditures in support of farm prices to exceed substantially the expenditures as now estimated under present programs.

Aid to Underdeveloped Areas—In his Inaugural Message the President proposed "a bold new program for making the benefits of our scientific advances and industrial program available for the improvement and growth of underdeveloped areas." No expenditures in connection with this program are explicitly included in present Budget estimates.

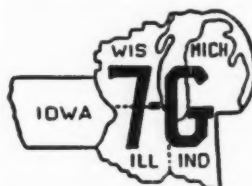
Housing—The Budget Message recommends legislation initiating the Federal assistance needed for a long-term program of slum clearance and urban redevelopment. The recommended legislation includes authorization to the Housing and Home Finance Administrator for contracts for Federal grants amounting to 100 million dollars a year for five years and also loan authorization of 25 million dollars for the fiscal year 1950 and larger authorizations in the following four years, totaling one billion dollars for the five-year period. The full program, therefore, involves authorizations for disbursements of 1.5 billion dollars, although the only Federal expenditures likely in the fiscal year 1950 are loans of 10 million dollars for planning the projects.

Other recommended legislation would provide the Federal assistance required to permit construction of 1,050,000 low-rent public housing units over a seven-year period. "It would authorize the Public Housing Administration to make contracts with local public agencies providing for annual Federal contributions over a 40-year period sufficient to assure acceptable housing for low-income families at rents they can afford to pay. Contracts involving maximum annual contributions of 85 million dollars would be authorized for the fiscal year 1950, rising to a maximum annual amount of 445 million dollars by the end of the fiscal year 1954. In addition, the lending authority of the Public Housing Administration would be increased by 700 million dollars primarily for temporary financing." Estimated expenditures under this program in the first year amount to 129 million dollars.

Other Programs—Other possibilities and commitments for higher expenditures in future years include expenditures for such Government programs as veterans' compensation and pension costs and hospital and medical care, public assistance, the International Wheat Agreement, a general public buildings program, and highway construction.

Present commitments which will affect future expenditures are of crucial importance. "Fiscal prudence requires that we consider the Government's program," states the Budget Message, "not on the basis of a single year alone, but in the light of the continuing national policies already adopted. It must be recognized that expenditures in the fiscal year 1951 are likely to be larger than those for 1950."

SEVENTH FEDERAL



RESERVE DISTRICT

